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BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
)  
)

800 Data Base Access Tariffs and )  
the Service Management System )

DA 93-930  
CC Docket No. 93-129

DIRECT CASE OF SOUTHWESTERN BELL TELEPHONE COMPANY

SOUTHWESTERN BELL TELEPHONE COMPANY

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DIRECT CASE OF SOUTHWESTERN BELL TELEPHONE COMPANY

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### SUMMARY\*

SWBT's 800 data base tariff clearly describes the services provided by basic 800 query service. The tariff also clearly states that SWBT will apply a query charge only for calls that are actually delivered to an IXC.

SWBT will not, until it is permitted, market vertical features directly to end users; SWBT's tariff clearly states this.

Because the Commission has so far refused to allow the proper treatment of 800 data base as a "new service", price cap LECs must somehow reconcile the creation of a new rate category (as part of a "restructure") with an exogenous adjustment to the overall basket PCI. The second method described in the Order--first adjusting for exogenous costs, then restructuring the traffic-sensitive basket and establishing a new service category--is consistent with the current "restructure" rules. This method should not require any waivers, and is the method which SWBT employed.

The only "other" cost listed by the Order and included as exogenous in SWBT's tariff is the cost of SSP software. SSP RTUs were not incurred to meet the Commission's access time standards. They were incurred so that an 800 query and response could be generated. RTUs would have been incurred whether or not access time standards had been established. Thus, these costs were properly treated by SWBT as exogenous.

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\* All abbreviations used herein are referenced within the text.

The Order requires price cap LECs using models to develop their direct cases to disclose those models on the record. In requiring such disclosure, the Commission has assumed that use of such models was not absolutely necessary. This assumption is incorrect. All LECs have used such models. SWBT used the CCSCIS model developed by Bellcore. CCSCIS contains proprietary information from third party vendors, and Bellcore's licensing agreement prohibits SWBT from disclosing the model on the record.

Some vertical features do require more complex and thus more costly hardware and/or software than those used for basic 800 queries. The cost support underlying SWBT's vertical features was developed in accordance with Part 61.49 of the Commission's Rules. No unusual or special factors were developed for depreciation or tax expense or any other component of the cost.

#### APPENDIX A ISSUES

Exhibit B attached hereto provides information requested in sections I, II and III.

No demand assumptions were used in SWBT's 800 NPAS query ratemaking methodology. SWBT simply divided the total exogenous cost by the base period 800 queries to obtain the 800 NPAS query rate.

SWBT developed its annual cost for SMS charges applied to SCP owner/operators from the most currently available data, which is provided at pages 15-16.

The SSP software is required to convert SWBT end offices and tandems to allow determination of the appropriate IXC and routing

for the 800 call. Without the SSP software, an 800 query would not be generated. The total SSP RTUs identified by SWBT are listed on page 17.

SWBT allocated the costs associated with the Kansas City SCP pair between 800 data base and LIDB as shown in the table on pages 18-19.

#### APPENDIX C ITEMS

Exhibit C shows costs incurred by KCDC for 1992. The categories in which the expenses have been broken down are used in the billing and budgeting process. These are the only available categories in which these expenses can be reflected.

Pages 21-29 describe each regulated and unregulated service, including SMS/800 service, supported by the KCDC. On January 1, 1993, a majority of the services offered by KCDC were reclassified from regulated to unregulated, because these services were being marketed and managed as a "line of business" and could no longer be considered incidental regulated businesses. SWBT determined that all services not provided internally would be classified as unregulated.

Expenses incurred by KCDC are split into the following categories: Hardware, Software, Personnel, Floorspace, Investment, Network, and Miscellaneous. Pages 29-39 discuss cost allocations for these items. Exhibit D describes these allocations in detail. This Direct Case addresses only cost allocations for KCDC. St. Louis data center resources are fully dedicated to SMS/800.

SWBT will be executing, with the other BOCs (within 60-90 days), the Service Agreement for the provision and support of the SMS/800 Data Base. DSMT will act as the duly authorized representative for the other BOCs, and will compensate SWBT but will not be obligated to pay any charges beyond the agreed budget plus five percent, unless the charges result from DSMT's request for additional hardware, software, or services.



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**DIRECT CASE OF SOUTHWESTERN BELL TELEPHONE COMPANY**

Southwestern Bell Telephone Company (SWBT) hereby files its Direct Case in response to the Commission's *Order Designating Issues For Investigation (Order)*.<sup>1</sup> SWBT's responses to the following issues will demonstrate that the terms and conditions of SWBT's 800 data base tariff are reasonable. This brief will first list each issue designated for investigation, then follow the issue with a specific response.

Issue 1: The degree of clarity with which the LEC data base tariffs describe the services offered.

Response: Some local exchange carriers (LECs), according to some petitioners, fail to state clearly that basic 800 query service includes area of service (AOS) routing at the Local Access Transport Area (LATA) level.<sup>2</sup> SWBT's 800 Number Portability Access Service (NPAS) basic query service includes the identification of an interexchange carrier (IXC) for an 800 call. The identification is based on the geographic origin of the call--from as low as a specific NPA/NXX, NPA, or LATA, or any combination of these.

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<sup>1</sup> *Order Designating Issues For Investigation*, CC Docket No. 93-129 (released July 19, 1993).

<sup>2</sup> Order, para. 6.

Therefore, SWBT's 800 NPAS basic query service includes AOS routing at the LATA level.

Some petitioners also argue that the LECs do not clearly describe when a LEC may charge for a query when the associated call is not delivered to the IXC.<sup>3</sup> SWBT's tariff states:

800 NPAS is an originating offering utilizing FGD/BSA-D trunk side Switched Access Service for the delivery of 800 calls . . . . Once the 800 NPAS Provider has been identified, the 800 call, served by the Telephone Company's Service Switching Point (SSP), will be routed to the 800 Service Provider's defined FGD/BSA-D trunk group . . . . The 800 NPAS query rate applies per call for each 800 query received at the Telephone Company Service Control Point (SCP) that returns a valid Carrier Identification Code (CIC) that provides the appropriate routing information of that call.

SWBT will only apply a query charge for calls that are delivered to the IXC.

Some petitioners argue that because of tariff ambiguities, LECs may market vertical features directly to end users, in contravention of the Order in CC Docket No. 86-10.<sup>4</sup> To market vertical features directly to end users, a carrier must offer stand-alone Responsible Organization (Resp Org) service. SWBT does not offer stand-alone Resp Org service; therefore, SWBT's tariff does not mention it. There is nothing ambiguous about SWBT's tariff on this point. SWBT will not, until it is permitted to, market vertical features directly to end users.<sup>5</sup>

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<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> SWBT has, however, appealed the vertical services restriction. If SWBT prevails on the appeal, SWBT reserves the right, in the future, to market vertical services directly to end users.

Issue 2: The reasonableness of the methods used by price cap LECs to restructure their traffic-sensitive baskets, while adjusting for exogenous costs.

Response: The Order describes two basic methods (as well as an alternative method) used by price cap LECs to restructure the traffic-sensitive basket and calculate the exogenous change and requests comment on each. With regard to each method, the Order inquires about (1) the appropriateness of these methods, (2) the effect of such methods upon pricing flexibility, (3) the compliance, or lack thereof, of such methods with price cap rules, (4) the necessity, or lack thereof, of Commission Rule waivers for each method, and (5) a requirement that the 800 data base Service Band Index (SBI) be initialized either at a value of 100 or else at the traffic-sensitive basket Actual Price Index (API).<sup>6</sup> The methods (and the alternative) are:

1. Restructure baskets first, then adjust the PCI (price cap index) for exogenous changes;
2. Calculate the exogenous change first, then restructure;
3. (Alternative) Adjust PCI to reflect the change in exogenous costs, with no adjustment to the existing rates, the existing SBIs or the SBI upper and lower limits.<sup>7</sup>

Because the Commission has so far refused to allow the proper treatment of 800 data base as a "new service", price cap LECs must somehow reconcile the creation of a new rate category (as part of a "restructure") with an exogenous adjustment to the

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<sup>6</sup> *Id.*, para. 24 & footnote 16.

<sup>7</sup> *Id.*, paras. 11-19.

overall basket PCI. The Order correctly points out that such reconciliation "was never specifically addressed by the price cap rules."<sup>8</sup> The second method described above, however--first adjusting for exogenous costs, then restructuring the traffic-sensitive basket and establishing a new service category--is consistent with the current "restructure" rules. This method, therefore, should not require any waivers.

The price cap SBI band limit rule<sup>9</sup> requires a change in the affected basket categories' band limits when a PCI change occurs. The exogenous cost change associated with the 800 data base "restructure" causes the traffic-sensitive basket PCI to increase. There is no provision under existing rules to target exogenous cost changes to a particular service category. Therefore, an adjustment to the band limits for existing categories in the basket is required by the rules, whether the exogenous cost change is considered to occur before or after the restructure. Method 2, which SWBT employed, fully complies with this rule. If no rate or demand change occurs for the existing rate elements as a result of a restructure, no change in SBIs occurs. If a rate or demand change occurs, the SBIs must change.

The effect of this method is an increase in the upward pricing flexibility for the existing service categories in the traffic-sensitive basket with a corresponding decrease in the downward

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<sup>8</sup> Order, para. 20.

<sup>9</sup> 47 CFR §61.47(e)(1).

pricing flexibility.<sup>10</sup> This change in pricing flexibility may require price increases in some existing categories to remain in-band if existing prices are at or near the lower band limits, or may require justification for remaining below band. Although the specific exogenous costs causing this change in pricing flexibility are related only to 800 data base service, the effect is the same as other annual filing exogenous cost changes that are primarily related to a specific service category (i.e., dial equipment minutes [DEM]).

Initialization of the data base SBI to a value of 100 is consistent with method 2 and price cap rules. Establishment of a new service category associated with a new price cap service is required to be initialized at 100 by the rules.<sup>11</sup> There is no good rationale for establishing the SBI for a new service category (resulting from a restructure) in a different manner. In either case, the basket API will not equal the weighted average of the SBIs of the categories.

Ironically, method 3, which the Order claims "results in an intuitively reasonable outcome,"<sup>12</sup> effectively replicates what would occur if 800 data base were treated as a "new" service. Both method 3 and new service treatment result in an unchanged API/PCI relationship, with no change in the existing relationship between

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<sup>10</sup> Contrary to the inference in paragraph 22 of the Order, the increase in the upper band limit does not create additional pricing flexibility, because the increase does not expand the band. The distance between the lower and upper band limits determines the degree of pricing flexibility.

<sup>11</sup> 47 CFR 61.47(c).

<sup>12</sup> Order, para. 23.

SBI's and upper and lower band limits. Method three, however, ignores the price cap rule (61.47[e][1]) requiring an adjustment to SBI band limits when a PCI change occurs. Method three thus would require a rule waiver. It is unclear why the SBI band limits would be set equal to the API plus and minus five percent under this method if the SBI is initialized to 100. If the revenue from the new category is small relative to total basket revenue, this could cause the initial price (equal to an SBI of 100) to exceed the upper band. The method, however, results in no change in existing service categories' price or indexes. Thus, method 3 may arrive at the proper destination over the wrong road.

Method 1 ends up at basically the same place as method 3. It appears that a rule waiver would also be required for this method, because existing prices are first reduced without changing the SBI's. Prices are then later increased accompanied by an increase in SBI's. Thus, existing prices do not change, but existing SBI's are increased.

Because the Commission required 800 data base costs to be treated as exogenous rather than as new service costs, Method 2 will fully comply with relevant price cap rules.

Issue 3: The reasonableness of the price cap LECs' 800 data base rates.

Subissue One: Are the exogenous costs claimed by the price cap LECs reasonable?

Response: The Order stipulates that LECs wishing to assert claims for including overhead in the calculation of exogenous costs

must provide justification in their Direct Cases.<sup>13</sup> Since SWBT's exogenous cost calculations do not include overhead loading factors, SWBT need not respond to this point.

The Order also requests comments on other exogenous costs claimed by LECs.<sup>14</sup> In SWBT's case, the only "other" cost listed by the Order and included as exogenous in SWBT's tariff is the cost of SSP software.

The Order notes that "petitioners protest the LECs' claims for exogenous treatment for such costs as SSP hardware and/or software . . . [and] argue that some costs should be disallowed because they were incurred to meet the Commission's access time standards, not to institute 800 data base service."<sup>15</sup>

In developing its tariffed rates for 800 data base, SWBT identified right-to-use fees (RTUs) associated with SSP software acquired specifically for deployment of 800 data base services. The software was required to convert SWBT end offices and tandems to SSPs so that (1) the data base access queries could be routed properly, and (2) the appropriate IXC could be identified to carry message transport. SSP RTUs were not incurred to meet the Commission's access time standards. They were incurred so that an 800 query and response could be generated.<sup>16</sup> RTUs would have been incurred whether or not access time standards had been established.

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<sup>13</sup> Order, para. 26.

<sup>14</sup> Order, para. 27.

<sup>15</sup> *Id.*

<sup>16</sup> Paragraphs 1-3 of the Order identify that part of the network "directly involved in processing 800 calls"; the SSP is identified as "directly involved" and necessary.

The Order also notes that some "[p]etitioners argue that the LECs did not properly allocate shared costs both among services (i.e., 800 data base service and LIDB [Line Information Data Base], basic and vertical query service) and between jurisdictions (interstate and intrastate)."<sup>17</sup>

SWBT identified the following items for exogenous cost treatment: SSP RTUs, SCP investment and expense, and Service Management System (SMS) expense. As discussed immediately above, RTUs exist solely for the benefit of 800 database services; therefore, no allocation to other services was required. The jurisdiction was obtained by following Part 36 of the Commission's Rules.

The SCP investment and expense incurred in Texas provide only 800 data base services; therefore, no allocation to other services was required of the Texas SCP investment and expense. The jurisdiction was obtained by following Part 36 of the Commission's Rules.

The SCP investment and expense incurred in Missouri are utilized by 800 data base services and LIDB service. Prior to obtaining the proper jurisdiction of the 800 specific costs via Part 36 of the Commission's Rules, SWBT allocated the Missouri SCP investment and expense between 800 data base service and LIDB. This allocation was based on queries, the common unit of measurement for the two services. The basis of the query counts was 1992 actual 800 minutes of use (MOU) data converted to queries.

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<sup>17</sup> Order, para. 27.



1992 data was used because LIDB was not a tariffed service until then.

The SMS expense is incurred solely for 800 data base services; therefore, no allocation to other services is required. The jurisdiction of this expense was therefore based on the number of 800 queries. SWBT chose this method because the entire cost should be assigned to and recovered from 800 data base services.

The Order requires price cap LECs using models to develop their direct cases to "disclose those models on the record if their justification for their rates is based on the use of the model."<sup>18</sup> The Common Channel Signaling Cost Information System (CCSCIS) is a computer model used by SWBT, a CCSCIS licensee, to calculate and apportion the shared Signaling System 7 (SS7) investments used by 800 data base and other SS7 based services. SWBT used the CCSCIS model to develop its costs for vertical features. A key feature of CCSCIS is its incorporation of current cost data from five equipment vendors: Northern Telecom, DSC Communications, Digital Equipment Corporation, Ericsson and AT&T. This enables SWBT to develop accurate and up-to-date service specific investments. The vendor data is proprietary, and the CCSCIS model is both a trade secret and proprietary, according to Bell Communications Research, Inc. (Bellcore), the owner of CCSCIS.

Footnote 24 of the Order states: "Since, in the present proceeding, two LECs were able to develop costs for 800 data base service without such computer models [CCSCIS or similar model], LECs do not need to rely exclusively on such a model for this

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<sup>18</sup> *Id.*, para. 29.

service." This statement is incorrect. All LECs, including SWBT, did rely upon CCSCIS or a similar model to develop investments for 800 data base service costs. Moreover, SWBT is not aware of any other means or processes for developing those investments which would not also involve proprietary data and models.

Bellcore has imposed strict limits on SWBT's use of CCSCIS and upon disclosure of information contained in the model. SWBT has complied and will continue to comply with those restrictions. SWBT cannot comply with those restrictions, however, and also disclose CCSCIS on the record.

Subissue Two: Have the LECs used reasonable rate making methodologies in developing their basic query rates?

Response: According to the Order, "Petitioners challenge the adequacy and accuracy of the demand assumptions on which the LECs based their basic query rates."<sup>19</sup> Because SWBT followed the Commission's price cap rules for restructured services, SWBT divided its exogenous costs by the base period demand. The base period demand, 1991 800 minutes of use, was divided by a minute per message factor of 2.75 to convert the actual 1991 800 minutes of use into queries.

Subissue Three: Have the LECs used reasonable rate making methodologies in developing their vertical features rates?

Response: The order inquires whether vertical features require the use of more complex and thus more costly hardware

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<sup>19</sup> Id., para. 30.

and/or software than those used for basic 800 queries, and if so, whether those differences have rate implications.<sup>20</sup> The short answer is that additional hardware and software are certainly necessary because of the additional requirements placed upon the 800 data base system by the complex queries which certain vertical features will generate. In the 800 basic query, the data base has only one thing to do; the data base provides the customer identification function required to determine the appropriate routing for each 1+800+NXX+XXXX call.

SWBT offers the following vertical features associated with 800 NPAS:

1. POTS (Plain Old Telephone Service) Translation;
2. Call Validation;
3. Call Handling and Destination.

The POTS Translation feature converts the 800 number into a designated POTS 10 digit number. If the customer provides the POTS number associated with the 800 number and requests delivery of the POTS number in place of the 800 number, the Telephone Company will deliver the POTS number.

The Call Validation feature ensures that calls originate only from an 800 Subscriber's customized service area. Calls originating outside the area will be screened and an out of band recording will be returned to the calling party.

The Call Handling and Destination feature allows routing of 800 calls based on one or any combination of the following: time

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<sup>20</sup> *Id.*, footnote 26.

of day, day of week, percent allocation, and specific 10 digit ANI (Automatic Number Identification).

While POTS Translation and Call Validation incur no additional costs over basic service, Call Handling and Destination features do require the data base to make additional decisions. Each branch of the decision tree adds an additional factor to the data base. For example, if a customer wants 800-555-5555 to route to 314-444-4444 only on Tuesdays between noon and midnight, using AT&T as the carrier and serving only callers from the 816 area code, the data base must make four additional decisions beyond what is necessary for the basic 800 "turnaround". Hence, a vertical query may need a great deal more memory and disk space than a basic query.

The cost support underlying SWBT's vertical features was developed in accordance with Part 61.49 of the Commission's Rules. The cost methodology used in developing this cost support was consistent with other new services for which SWBT has filed federal tariffs. No unusual or special factors were developed for depreciation or tax expense or any other component of the cost.

SWBT has no historical data for 800 NPAS vertical features and thus relied on industry input to determine vertical features demand. Based on numerous conversations with access customers and discussions during industry fora, SWBT estimated that 15% of all 800 data base queries would involve vertical features.

Appendix A Issues: The Commission, in determining whether SWBT's 800 data base rates are reasonable, has requested SWBT to provide the information in Appendix A of the Order.

## I. UNIT COST AND INVESTMENT INFORMATION

For each function, provide unit gross investment in each of the respective Part 32 accounts. On the same basis, provide the following unit costs: (1) Depreciation, (2) Net Return, (3) Federal Income Tax, (4) State and Local Income Tax, (5) Maintenance, (6) Administration, (7) Other Tax, (8) Other Direct Expense, (9) Total Overhead Loadings, and (10) Total Expense.

The Part 32 accounts listed on the spreadsheet should include all applicable plant accounts. If plant is included in accounts other than those listed on the spreadsheet, please show the Part 32 account and the amount in a note. For accounts that do not apply to your company, enter NONE. Unit costs should be entered by Part 32 account if the cost is plant-based. At a minimum, the plant-based unit costs should include Depreciation, Net Return, Federal Income Tax, and State and Local Income Tax. For costs that are not plant-based, enter the amount in the total column, and enter the applicable Part 32 expense account. In a separate note, identify which Part 36 category or categories of expense are reflected in each of the Maintenance, Administration, Other Direct Expense, and Overhead Loadings rows on the form.

Response: See Exhibit B attached hereto.

## II. JURISDICTIONAL SEPARATIONS

For each function, and for each Part 32 plant account identified in the spreadsheet, provide gross investment subject to separations, and the amounts apportioned or assigned to state 800 data base, state other, interstate 800 data base and interstate other. The investment provided in each case should be for only

those pieces of equipment used to provide 800 data base service, i.e., for the portion of the Part 32 account that reflects equipment or land or buildings used to provide 800 data base. For example, for General Purpose Computers, provide only investment amounts for the equipment used to provide 800 data base, not the total investment in General Purpose Computers used throughout the company. Also state the method used to assign that investment to interstate 800 data base (e.g., direct assignment, engineering studies).

Response: See Exhibit B attached hereto.

### III. DEMAND

For 800 data base service, provide the base period demand used in your restructure calculations. Also provide the demand level used in your cost estimates, the time period used in your demand estimates and the discount rate used to calculate a demand estimate that is levelized over a period of several years.

Response: See Exhibit B attached hereto.

### IV. OTHER

1. If a discount rate is used in your demand calculations, explain the rationale for using this rate.

Response: No discount rate was used in SWBT's demand calculations.

2. If you based your demand growth assumptions completely on past performance, explain why the introduction of 800 data base

service will have no effect on the growth rate for 800 query demand for your company.

Response: Demand growth assumptions were not used. Price cap base period demand was used in developing the 800 NPAS query.

3. Explain how the demand assumptions were used in your ratemaking methodology.

Response: No demand assumptions were used in SWBT's 800 NPAS query ratemaking methodology. SWBT simply divided the total exogenous cost by the base period 800 queries to obtain the 800 NPAS query rate. The base period 800 queries were obtained by dividing the interstate base period 800 minutes of use (3,307,878,600) by a minute per message factor of 2.75. This resulted in 1,202,864,945 base period interstate 800 queries.

4. Provide the annual costs for all expenses related to the SMS/800 incurred pursuant to contracts with Bellcore, Data Services Management, Inc., or any other entity. Provide the terms of the contract and an explanation of how the annualized amount is calculated.

Response: SWBT developed its annual cost for SMS charges applied to SCP owner/operators from the most currently available data as follows:

<u>COST ITEM</u>	<u>Total SWBT Cost Estimate</u>
9.6 Kbps Dedicated Access	\$ 1,017,371
800 Record translation, validation and downloading services. Applied monthly	

for each Network served.	\$	62,016
Database administration support, and network management services. Applied monthly for each database (SCP) served.	\$	523,700
Total Cost	\$	1,603,087
PIU		72%
Interstate Cost	\$	1,153,595 (See pp. 3-4 of D&J.)
Cost additive per interstate query: Interstate Queries		1,202,864,945
Interstate Cost per Interstate Query	\$	0.000959

5. Provide the cost detail, by account, associated with upgrading the SSPs for 800 data base service and justify why those upgrades should be treated as exogenous costs.

Response: The SSP software is required to convert SWBT end offices and tandems to allow determination of the appropriate IXC and routing for the 800 call. Without the SSP software, an 800 query would not be generated. No other service benefits from the deployment of the SSP software. The total SSP RTUs identified by SWBT prior to jurisdiction are:



	1992 Northern Telecom Switches	1992 ATT Switches	1993 Northern Telecom Switches	1993 ATT Switches
Arkansas	529,600	375,960	106,000	375,960
Kansas	635,600	542,077	35,300	240,923
Missouri	600,200	2,109,000	0	0
Oklahoma	635,500	1,084,320	0	421,680
Texas	<u>1,518,000</u>	<u>7,416,479</u>	<u>918,000</u>	<u>3,252,841</u>
Total	3,918,900	11,527,836	1,059,300	4,291,404
Grand Total	15,446,736		5,350,704	
	<u>x 1.1125</u>		(See pp. 3-4 of SWBT's D&J)	
	17,184,494			
	(See pp 3-4 of SWBT's D&J)			

The AT&T SSP RTUs represent the cost to add SSP functionality to 249 end office and tandem switches. The Northern Telecom SSP RTUs represent the cost to add SSP functionality to 141 end office and tandem switches. No SSP RTUs incurred prior to 1992 were included in SWBT's exogenous cost treatment.

6. If overhead costs were included as exogenous costs in your initial filing, justify why those costs should be treated as exogenous cost.

Response: SWBT did not include overhead loadings in its total exogenous costs.

7. If signalling link costs between local STPs and regional STPs are included as exogenous costs, justify why those costs should be treated as exogenous costs.

Response: Signalling link costs associated with 800 data base implementation were de minimus and not included in SWBT's exogenous costs.